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PHOTRONICS INC

FORM 10-Q
(Quarterly Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ ***QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934***
For the quarterly period ended July 31, 2011

OR

☐ ***TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934***
For the transition period from ___ to ___

Commission file number 0-15451

PHOTRONICS, INC.

(Exact name of registrant as specified in its charter)

Connecticut	**06-0854886**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification Number)*

15 Secor Road, Brookfield, Connecticut 06804
(Address of principal executive offices and zip code)

(203) 775-9000
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.
Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐ Smaller Reporting Company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 31, 2011
Common Stock, $0.01 par value	**59,830,872 Shares**

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements made by or on behalf of Photronics, Inc. ("Photronics" or the "Company"). These statements are based on management's beliefs, as well as assumptions made by, and information currently available to, management. Forward-looking statements may be identified by words like "expect", "anticipate", "believe", "plan", "projects", and similar expressions, or the negative of such terms, or other comparable terminology. All forward-looking statements involve risks and uncertainties that are difficult to predict. In particular, any statement contained in this quarterly report on Form 10-Q, in press releases, written statements, or other documents filed with the Securities and Exchange Commission or, in the Company's communications and discussions with investors and analysts in the normal course of business through meetings, phone calls, or conference calls, regarding the consummation and benefits of future acquisitions, expectations with respect to future sales, financial performance, operating efficiencies, or product expansion, are subject to known and unknown risks, uncertainties, and contingencies, many of which are beyond the control of the Company. These factors may cause actual results, performance, or achievements to differ materially from anticipated results, performance, or achievements expressed or implied by such forward-looking statements. Factors that might affect such forward-looking statements include, but are not limited to, overall economic and business conditions; economic and political conditions in international markets; the demand for the Company's products; competitive factors in the industries and geographic markets in which the Company competes; changes in federal, state and international tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); interest rate fluctuations and other capital market conditions, including changes in the market price of the Company's common stock; foreign currency exchange rate fluctuations; changes in technology; the timing, impact, and other uncertainties of future acquisitions; the seasonal and cyclical nature of the semiconductor and flat panel display industries; management changes; damage or destruction to the Company's facilities, or the facilities of its customers or suppliers by natural disasters, labor strikes, political unrest, or terrorist activity; the ability of the Company to: (i) place new equipment in service on a timely basis; (ii) obtain additional financing; (iii) achieve anticipated synergies and other cost savings in connection with acquisitions and productivity programs; (iv) fully utilize its tools; (v) achieve desired yields, pricing, product mix, and market acceptance of its products; (vi) and obtain necessary export licenses. Any forward-looking statements should be considered in light of these factors. Accordingly, there is no assurance that the Company's expectations will be realized. The Company does not assume responsibility for the accuracy and completeness of the forward-looking statements and does not assume an obligation to provide revisions to any forward-looking statements.

PHOTRONICS, INC.
AND SU BSI DIARIES

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PART I. FINANCIAL INFORMATION

Item 1. C ON DENSED CONSOLIDATED FINANCIAL STATEMENTS

PHOTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in thousands, except per share amounts)
(unaudited)

	July 31, 2011	October 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 202,845	$ 98,945
Accounts receivable, net of allowance of $4,271 in 2011and $4,235 in 2010	97,654	82,951
Inventories	30,873	15,502
Deferred income taxes	1,313	1,173
Other current assets	8,878	7,231
Total current assets	341,563	205,802
Property, plant and equipment, net	397,703	369,814
Investment in joint venture	72,504	61,127
Intangible assets, net	43,660	47,748
Other assets	21,494	19,388
	$ 876,924	$ 703,879
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term borrowings	$ 5,538	$ 11,467
Accounts payable	89,922	77,630
Accrued liabilities	42,697	30,132
Total current liabilities	138,157	119,229
Long-term borrowings	153,527	78,852
Deferred income taxes	515	499
Other liabilities	8,646	9,356
Total liabilities	300,845	207,936
Commitments and contingencies		
Equity:		
Preferred stock, $0.01 par value, 2,000 shares authorized, none issued and outstanding	-	-
Common stock, $0.01 par value, 150,000 shares authorized, 59,510 shares issued and outstanding at July 31, 2011 and 53,779 at October 31, 2010	595	538
Additional paid-in capital	485,439	436,825
Retained earnings (accumulated deficit)	4,314	(2,624)
Accumulated other comprehensive income	27,294	7,062
Total Photronics, Inc. shareholders' equity	517,642	441,801
Noncontrolling interests	58,437	54,142
Total equity	576,079	495,943
	$ 876,924	$ 703,879

See accompanying notes to condensed consolidated financial statements.

PHOTRONICS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended		Nine Months Ended	
	July 31, 2011	August 1, 2010	July 31, 2011	August 1, 2010
Net sales	$ 135,935	$ 112,251	$ 389,861	$ 315,518
Costs and expenses:				
Cost of sales	(97,695)	(85,979)	(284,540)	(248,979)
Selling, general and administrative	(11,833)	(11,068)	(33,995)	(32,086)
Research and development	(3,527)	(3,427)	(11,238)	(10,983)
Consolidation, restructuring and related (charges) credits	-	(26)	-	4,810
Operating income	22,880	11,751	60,088	28,280
Other income (expense):				
Debt extinguishment loss	(4,973)	-	(35,259)	-
Interest expense	(1,907)	(1,827)	(5,499)	(7,807)
Investment and other income (expense), net	1,517	593	3,480	1,937
Income before income taxes	17,517	10,517	22,810	22,410
Income tax provision	(4,895)	(2,910)	(11,637)	(5,790)
Net income	12,622	7,607	11,173	16,620
Net (income) loss attributable to noncontrolling interests	(1,357)	84	(4,235)	(842)
Net income attributable to Photronics, Inc.	$ 11,265	$ 7,691	$ 6,938	$ 15,778
Earnings per share:				
Basic	$ 0.19	$ 0.14	$ 0.12	$ 0.30
Diluted	$ 0.16	$ 0.13	$ 0.12	$ 0.29
Weighted average number of common shares outstanding:				
Basic	58,987	53,516	56,163	53,341
Diluted	76,744	66,280	57,724	65,689

See accompanying notes to condensed consolidated financial statements.

PHOTRONICS, INC. AND SUBSID IARI ES
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Nine Months Ended	
	July 31, 2011	**August 1, 2010**
Cash flows from operating activities:		
Net income	$ 11,173	$ 16,620
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	70,090	67,786
Debt extinguishment loss	27,399	-
Consolidation, restructuring and related credits	-	(5,059)
Changes in assets and liabilities:		
Accounts receivable	(10,332)	(12,419)
Inventories	(14,196)	630
Other current assets	(1,154)	(3,592)
Accounts payable, accrued liabilities and other	21,471	10,211
Net cash provided by operating activities	104,451	74,177
Cash flows from investing activities:		
Purchases of property, plant and equipment	(59,089)	(38,040)
Investment in joint venture	(10,773)	-
Proceeds from sale of facility	-	12,880
Other	(250)	288
Net cash used in investing activities	(70,112)	(24,872)
Cash flows from financing activities:		
Proceeds from issuance of convertible debt	115,000	-
Proceeds from long-term borrowings	17,000	28,680
Repayments of long-term borrowings	(63,445)	(62,288)
Payments of deferred financing fees	(4,318)	(1,225)
Repurchase of common stock by subsidiary	(3,294)	-
Proceeds from exercise of share-based arrangements	694	75
Net cash provided by (used in) financing activities	61,637	(34,758)
Effect of exchange rate changes on cash	7,924	941
Net increase in cash and cash equivalents	103,900	15,488
Cash and cash equivalents at beginning of period	98,945	88,539
Cash and cash equivalents at end of period	$ 202,845	$ 104,027
Supplemental disclosure of cash flow information:		
Capital lease obligation for purchase of equipment	$ 21,248	$ -
Common stock issued to extinguish debt	$ 20,234	$ -
Change in accrual for purchases of property, plant and equipment	$ (2,712)	$ 35,735

See accompanying notes to condensed consolidated financial statements .

PHOTRONICS , INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
Three and Nine Months Ended July 31, 2011 and August 1, 2010
(unaudited)
(in thousands, except share amounts)

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Photronics, Inc. and its subsidiaries ("Photronics" or the "Company") is one of the world's leading manufacturers of photomasks, which are high precision photographic quartz plates containing microscopic images of electronic circuits. Photomasks are a key element in the manufacture of semiconductors and flat panel displays ("FPDs"), and are used as masters to transfer circuit patterns onto semiconductor wafers and flat panel substrates during the fabrication of integrated circuits ("ICs") and a variety of FPDs and, to a lesser extent, other types of electrical and optical components. The Company currently operates principally from nine manufacturing facilities, two of which are located in Europe, two in Taiwan, one in Korea, one in Singapore, and three in the United States.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the fiscal year ending October 30, 2011. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended October 31, 2010.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence that an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectability is reasonably assured. Delivery is determined by the shipping terms of the individual sales transactions. For sales with FOB destination shipping terms, delivery occurs when the Company’s product reaches its destination and is received by the customer. For sales with FOB shipping point terms, delivery occurs when the Company’s product is received by the common carrier. The Company uses judgment when estimating the effect on revenue of discounts and product warranty obligations, both of which are accrued when the related revenue is recognized.

Warranties and Other Post Shipment Obligations – For a 30-day period, the Company warrants that items sold will conform to customer specifications. However, the Company’s liability is limited to the repair or replacement of the photomasks as its sole option. The Company inspects photomasks for conformity to customer specifications prior to shipment. Accordingly, customer returns of items under warranty have historically been insignificant. However, the Company records a liability for the insignificant amount of estimated warranty returns based on historical experience. The Company’s specific return policies include accepting returns of products with defects, or products that have not been produced to precise customer specifications. At the time of revenue recognition, a liability is established for these items.

Sales Taxes – The Company presents its revenues in the condensed consolidated statements of operations, net of sales taxes, if any (excluded from revenues).

See the Company’s Form 10-K for the year ended October 31, 2010 for additional significant accounting policies of the Company.

NOTE 2 - CHANGES IN EQUITY AND COMPREHENSIVE INCOME (LOSS)

The following tables set forth the Company's consolidated changes in equity and comprehensive income (net of tax) for the three and nine months ended July 31, 2011 and August 1, 2010:

	Three Months Ended July 31, 2011							
	Photronics, Inc. Shareholders							
	Common Stock		Add'l Paid-in Capital	Retained Earnings (Accum-ulated Deficit)	Accum-ulated Other Compre-hensive Income	Total Photronics, Inc.	Non-controlling Interests	Total Equity
	Shares	Amount						
Balance at May 1, 2011	58,539	$ 585	$ 478,009	$ (6,951)	$ 23,991	$ 495,634	$ 56,981	$ 552,615
Comprehensive income:								
Net income	-	-	-	11,265	-	11,265	1,357	12,622
Amortization of cash flow hedges	-	-	-	-	32	32	-	32
Foreign currency translation adjustments	-	-	-	-	3,271	3,271	99	3,370
Total comprehensive income						14,568	1,456	16,024
Common stock issued to extinguish debt	738	7	6,461	-	-	6,468	-	6,468
Sale of common stock through employee stock option and purchase plans	205	2	243	-	-	245	-	245
Restricted stock awards vesting and expense	28	1	341	-	-	342	-	342
Share-based compensation expense	-	-	385	-	-	385	-	385
Balance at July 31, 2011	59,510	$ 595	$ 485,439	$ 4,314	$ 27,294	$ 517,642	$ 58,437	$ 576,079

	Three Months Ended August 1, 2010							
	Photronics, Inc. Shareholders							
	Common Stock		Add'l Paid-in Capital	Accum-ulated Deficit	Accum-ulated Other Compre-hensive Income (Loss)	Total Photronics, Inc.	Non-controlling Interests	Total Equity
	Shares	Amount						
Balance at May 2, 2010	53,497	$ 535	$ 434,976	$ (18,459)	$ 6,217	$ 423,269	$ 52,900	$ 476,169
Comprehensive income:								
Net income (loss)	-	-	-	7,691	-	7,691	(84)	7,607
Reclassification adjustment – unrealized holding gain	-	-	-	-	(76)	(76)	(56)	(132)
Amortization of cash flow hedges	-	-	-	-	31	31	-	31
Foreign currency translation adjustments	-	-	-	-	(10,820)	(10,820)	108	(10,712)
Total comprehensive loss	-	-	-	-	-	(3,174)	(32)	(3,206)
Sale of common stock through employee stock option and purchase plans	5	-	4	-	-	4	-	4
Share-based compensation expense	13	-	487	-	-	487	-	487
Balance at August 1, 2010	53,515	$ 535	$ 435,467	$ (10,768)	$ (4,648)	$ 420,586	$ 52,868	$ 473,454

	Nine Months Ended July 31, 2011							
	Photronics, Inc. Shareholders							
	Common Stock		Add'l Paid-in Capital	Retained Earnings (Accum-ulated Deficit)	Accum-ulated Other Compre-hensive Income	Total Photronics, Inc.	Non-controlling Interests	Total Equity
	Shares	Amount						
Balance at October 31, 2010	53,779	$ 538	$ 436,825	$ (2,624)	$ 7,062	$ 441,801	$ 54,142	$ 495,943
Comprehensive income:								
Net income	-	-	-	6,938	-	6,938	4,235	11,173
Amortization of cash flow hedges	-	-	-	-	96	96	-	96
Foreign currency translation adjustments	-	-	-	-	20,148	20,148	3,009	23,157
Total comprehensive income						27,182	7,244	34,426
Common stock issued to extinguish debt	5,229	52	45,585	-	-	45,637	-	45,637
Sale of common stock through employee stock option and purchase plans	315	3	387	-	-	390	-	390
Restricted stock awards vesting and expense	65	1	763	-	-	764	-	764
Share-based compensation expense	-	-	1,050	-	-	1,050	-	1,050
Common stock warrants exercised	122	1	1,157	-	-	1,158	-	1,158
Repurchase of common stock by subsidiary	-	-	(328)	-	(12)	(340)	(2,949)	(3,289)
Balance at July 31, 2011	59,510	$ 595	$ 485,439	$ 4,314	$ 27,294	$ 517,642	$ 58,437	$ 576,079

	Nine Months Ended August 1, 2010							
	Photronics, Inc. Shareholders							
	Common Stock		Add'l Paid-in Capital	Accum-ulated Deficit	Accum-ulated Other Compre-hensive Loss	Total Photronics, Inc.	Non-controlling Interests	Total Equity
	Shares	Amount						
Balance at November 1, 2009	53,011	$ 530	$ 432,160	$ (26,546)	$ (6,389)	$ 399,755	$ 49,941	$ 449,696
Comprehensive income:								
Net income	-	-	-	15,778	-	15,778	842	16,620
Unrealized holding gain	-	-	-	-	76	76	56	132
Reclassification adjustment – unrealized holding gain	-	-	-	-	(76)	(76)	(56)	(132)
Amortization of cash flow hedges	-	-	-	-	96	96	-	96
Foreign currency translation adjustments	-	-	-	-	1,645	1,645	2,085	3,730
Total comprehensive income	-	-	-	-	-	17,519	2,927	20,446
Sale of common stock through employee stock option and purchase plans	98	1	108	-	-	109	-	109
Share-based compensation								

expense	56	-	1,518	-	-	1,518	-	1,518
Common stock warrants exercised	350	4	1,681	-	-	1,685	-	1,685
Balance at August 1, 2010	53,515	$ 535	$ 435,467	$ (10,768)	$ (4,648)	$ 420,586	$ 52,868	$ 473,454

NOTE 3 - JOINT VENTURE

On May 5, 2006, Photronics and Micron Technology, Inc. ("Micron") entered into the MP Mask joint venture (“MP Mask”), which develops and produces photomasks for leading-edge and advanced next generation semiconductors. As part of the formation of the joint venture, Micron contributed its existing photomask technology center located at its Boise, Idaho, headquarters to MP Mask and Photronics invested $135 million in exchange for a 49.99% interest in MP Mask (to which $64.2 million of the original investment was allocated), a license for photomask technology of Micron, and certain supply agreements.

This joint venture is a variable interest entity ("VIE") (as that term is defined in the Accounting Standards Codification ("ASC")) primarily because all costs of the joint venture will be passed on to the Company and Micron through purchase agreements they have entered into with the joint venture. In accordance with accounting guidance issued by the Financial Accounting Standards Board (“FASB”) in June 2009, on a quarterly basis the Company reassesses whether its interest in MP Mask gives it a controlling financial interest in this VIE. The purpose of this quarterly reassessment is to identify the primary beneficiary (which is defined in the ASC as the entity that consolidates a VIE) of the VIE. As a result of the reassessment in the current quarter, the Company determined that Micron is still the primary beneficiary of the VIE, by virtue of its greater voting power, if necessary, within MP Mask’s Board of Managers, thereby giving it the power to direct the activities of MP Mask that most significantly impact its economic performance, including its decision making authority in the ordinary course of business and its purchasing the majority of products produced by the VIE.

The Company has utilized MP Mask for both high-end IC photomask production and research and development purposes. MP Mask charges its variable interest holders based on their actual usage of its facility. MP Mask separately charges for any research and development activities it engages in at the requests of its owners. The Company recorded cost of sales of $6.5 million and $14.8 million and research and development expenses of $0.2 million and $0.7 million during the three and nine month periods ended July 31, 2011. Cost of sales of $1.8 million and $4.5 million and research and development expenses of $0.2 million and $0.7 million were recorded during the three and nine month periods ended August 1, 2010.

MP Mask is governed by a Board of Managers, appointed by Micron and the Company. Since MP Mask's inception, Micron, as a result of its majority ownership, has held majority voting power on the Board of Managers. The voting power held by each party is subject to change as ownership interests change. Under the MP Mask joint venture operating agreement, the Company may be required to make additional capital contributions to MP Mask up to the maximum amount defined in the operating agreement. However, should the Board of Managers determine that further additional funding is required, MP Mask shall pursue its own financing. If MP Mask is unable to obtain its own financing, it may request additional capital contributions from the Company. Should the Company choose not to make a requested contribution to MP Mask, its ownership percentage may be reduced. During the three and nine month periods ended July 31, 2011, the Company increased its investment in MP Mask by $0.5 million and $10.7 million, respectively, primarily related to capital calls requested by MP Mask. The Company did not make any contributions to MP Mask during the three and nine month periods ended August 1, 2010, and did not receive any distributions from MP Mask during its first three quarterly periods of fiscal 2011 or 2010.

The Company's investment in the VIE, which represents its maximum exposure to loss, was $72.5 million at July 31, 2011 and $61.1 million at October 31, 2010. These amounts are reported in the Company's condensed consolidated balance sheets as "Investment in joint venture". The Company recorded income from its investment in the VIE of $0.6 million in the nine month period ended July 31, 2011, and recorded no income from its investment in the three month period ended July 31, 2011, or in the three and nine month periods ended August 1, 2010. Income from the VIE is included in "Investment and other income, net" in the condensed consolidated statements of income.

NOTE 4 - LONG-TERM BORROWINGS

Long-term borrowings consist of the following:

	July 31, 2011	October 31, 2010
3.25% convertible senior notes due on April 1, 2016	$ 115,000	$ -
5.5% convertible senior notes due on October 1, 2014	22,054	57,500
3.09% capital lease obligation payable through March 2016	19,881	-
4.75% financing loan with customer	2,130	2,954
8.0% capital lease obligation	-	16,220
5.6% capital lease obligation	-	8,645
Borrowings under revolving credit facility, which bear interest at a variable rate, as defined (3.8% at October 31, 2010)	-	5,000
	159,065	90,319
Less current portion	5,538	11,467
	$ 153,527	$ 78,852

On March 28, 2011, the Company issued through a private offering pursuant to Rule 144A under the Securities Act of 1933, as amended, $115 million aggregate principal amount of 3.25% convertible senior notes. The notes mature on April 1, 2016, and note holders may convert each $1,000 principal amount of notes to 96.3879 shares of common stock (equivalent to an initial conversion price of $10.37 per share of common stock) at any time prior to the close of business on the second scheduled trading day immediately preceding April 1, 2016. The conversion rate is subject to adjustment upon the occurrence of certain events, which are described in the indenture dated March 28, 2011. The Company is not required to redeem the notes prior to their maturity date. Interest on the notes accrues in arrears, and is to be paid semiannually through the notes' maturity date, with payments commencing on October 1, 2011. The net proceeds of the notes were approximately $110.5 million, which were used, in part, to acquire $35.4 million, through July 31, 2011, of the Company's 5.5% convertible senior notes which were to mature on October 1, 2014, and to repay, in full, its then outstanding obligations under capital leases of $19.8 million.

On March 18, 2011, the Company amended its revolving credit facility ("the credit facility") which, as amended, included, among other things: i) a reduction of the aggregate commitments of the lenders from $65 million to $30 million; ii) a reduction of the applicable interest rates and modifications of the leverage ratios relating thereto; iii) an extension of the maturity date to April 30, 2015; iv) an increase of certain financed capital assets up to $75 million outstanding at any one time; v) an allowance to issue the 3.25% convertible senior notes; vi) an increase in the investments "basket" from $15 million to $25 million per year; vii) an allowance to repurchase the 5.5% convertible senior notes and other indebtedness; and viii) removal of the limitation on maximum last twelve months capital expenditures. The credit facility bears interest (2.69% at July 31, 2011), based on the Company's total leverage ratio, at LIBOR plus a spread, as defined in the credit facility.

The credit facility is secured by substantially all of the Company's assets located in the United States, as well as common stock the Company owns in certain of its foreign subsidiaries, and is subject to the following financial covenants: minimum fixed charge ratio, total leverage ratio and minimum unrestricted cash balance. The Company, in connection with a February 2010 amendment to the credit facility, wrote off $1.0 million of deferred financing fees in its second quarter of fiscal 2010.

In January 2011 a $10 million irrevocable stand-by letter of credit, which expired in July 2011, for the purchase of manufacturing equipment was issued under the credit facility. As of July 2011, the Company had no outstanding borrowings under the credit facility and $30 million was available for borrowing.

In June 2011 the Company acquired $5.0 million of its 5.5% convertible senior notes in exchange for 0.7 million shares of its common stock with a fair value of $6.5 million and cash of $3.2 million (the note holders received 147.529 shares and cash of $647 for each $1,000 note). The Company, in connection with this repurchase, recorded an extinguishment loss of $5.0 million, which includes the write off of deferred financing fees of $0.3 million. The loss is included in other income (expense) in the Company's condensed consolidated statements of income.

In March 2011 the Company acquired $30.4 million of its 5.5% convertible senior notes in exchange for 4.5 million shares of its common stock with a fair value of $39.2 million and cash of $19.7 million (the note holders received 147.529 shares and cash of $647 for each $1,000 note). The Company, in connection with this repurchase, recorded an extinguishment loss of $30.1 million, which includes the write off of deferred financing fees of $1.7 million. The loss is included in other income (expense) in the Company's condensed consolidated statements of income.

In September 2009 the Company issued, through a public offering, $57.5 million aggregate principal amount of 5.5% convertible senior notes, which were to mature on October 1, 2014. Under the terms of the offering, the note holders could convert each $1,000 principal amount of notes to 196.7052 shares of common stock (equivalent to an initial conversion price of $5.08 per share of common stock) on, or before, September 30, 2014. The conversion rate is subject to adjustment upon the occurrence of certain events which are described in the indenture dated September 16, 2009. The Company is not required to redeem the notes prior to their maturity. The net proceeds of this offering were approximately $54.9 million, which were used to reduce amounts outstanding under the Company's then existing credit facility.

In the first quarter of 2008 a capital lease agreement with Micron commenced for the U.S. nanoFab facility. Quarterly lease payments, which bore interest at 8%, were $3.8 million through January 2013. This lease was cancelled in the third fiscal quarter of 2009, at which time the Company and Micron (the lessor) entered into a new lease agreement for the facility. Under the provisions of the new lease agreement, quarterly lease payments were reduced from $3.8 million to $2.0 million, the term of the lease was extended from December 31, 2012 to December 31, 2014, and ownership of the property will not transfer to the Company at the end of the lease term. The interest rate of the new lease agreement remained at 8%. As a result of the new lease agreement, the Company reduced its lease obligation and the carrying value of its assets under capital leases by approximately $28 million. The Company paid the lease obligation in full with a portion of the net proceeds of the March 28, 2011, issuance of its 3.25% convertible senior notes. The lease will be accounted for as an operating lease during the additional two years of the new lease term.

In April 2011 the Company entered into a 5-year, $21.2 million capital lease for manufacturing equipment. Payments under the lease, which bears interest at 3.09%, are $0.4 million per month through March 2016. The lease agreement provides that the Company must maintain the equipment in good working order, and includes a cross default with cross acceleration provision related to certain non-financial covenants incorporated in the Company's credit facility agreement. As of July 31, 2011, the total amount payable through the end of the lease term was $21.4 million, of which $19.9 million represented principal and $1.5 million represented interest.

In October 2007 the Company entered into a capital lease agreement in the amount of $19.9 million associated with certain equipment. Payments under the lease were $0.4 million per month over a 5-year term at a 5.6% interest rate. On April 6, 2011, the Company used a portion of the net proceeds of the March 28, 2011, issuance of its 3.25% convertible senior notes, to repay in full the outstanding balance of this lease of $7.0 million. In connection with this repayment, the Company paid a $0.2 million prepayment penalty which was recorded as a debt extinguishment loss, included in other income (expense) in the Company's condensed statements of income.

In January 2010 the Company borrowed $3.7 million from a customer to purchase manufacturing equipment. This loan bears interest at 4.75% and is primarily being repaid with product supplied to the customer. Product valued at $0.3 million and $0.9 million was shipped to the customer and applied against the loan during the three and nine month periods ended July 31, 2011, and product valued at $0.3 and $0.5 million was shipped and applied against the loan during the comparable prior year periods. During the three month period ending October 30, 2011, the Company may make a cash payment against this loan of approximately $0.6 million. The Company estimates that the loan will be fully repaid in fiscal 2013.

NOTE 5 - COMMON STOCK WARRANTS

On September 10, 2009, the Company entered into two warrant agreements with Intel Capital Corporation to purchase a total of 750,000 shares of the Company's common stock. Under one warrant agreement 500,000 shares of the Company's common stock can be purchased at an exercise price of $4.15 per share and under the second warrant agreement 250,000 shares of the Company's common stock can be purchased at an exercise price of $5.08 per share. The warrant agreements expire on September 10, 2014. Also on September 10, 2009, the Company and Intel Corporation entered into an agreement to share technical and operations information regarding the development of the Company’s products, the capabilities of the Company’s photomask manufacturing lines and the alignment of photomask toolsets. The warrants were recorded at their fair value on their date of grant, which was determined using the Black-Scholes option pricing model. As of July 31, 2011, none of the warrants had been exercised.

In conjunction with the May 2009 amendment to its credit facility, the Company also entered into a warrant agreement with its lenders. See Note 6 for further discussion of these warrants.

NOTE 6 - DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company utilizes derivative instruments to reduce its exposure to the effects of the variability of interest rates and foreign currencies on its financial performance when it believes such action is warranted. Historically, the Company has been a party to derivative instruments to hedge either the variability of cash flows of a prospective transaction or the fair value of a recorded asset or liability. In certain instances, the Company has designated these transactions as hedging instruments. However, whether or not a derivative was designated as being a hedging instrument, the Company's purpose for engaging in the derivative has always been for risk management and not speculative purposes. The Company historically has not been a party to a significant number of derivative instruments and does not expect its derivative activity to significantly increase in the foreseeable future.

In addition to the utilization of derivative instruments discussed above, the Company attempts to minimize its risk of foreign currency exchange rate variability by, whenever possible, procuring production materials within the same country that it will utilize the materials in manufacturing, and by selling to customers from manufacturing sites within the country in which the customers are located.

On May 15, 2009, in connection with an amendment to its credit facility, the Company issued 2.1 million warrants, each exercisable for one share of the Company's common stock at an exercise price of $0.01 per share. Forty percent of the warrants were exercisable upon issuance, and the remaining balance was to become exercisable in twenty percent increments at various points in time after October 31, 2009. As a result of certain net cash settleable put provisions within the warrant agreement, the warrants were recorded as a liability in the Company's consolidated balance sheet. As of the issuance date and for future periods that such warrants remain outstanding, the Company has, and will continue to, adjust the liability based upon the current fair value of the warrants, with any changes in their fair value being recognized in earnings. Due to the warrants' exercise price of $0.01 per share, their fair value will approximate the market price of the Company's common stock. Approximately 1.2 million of these warrants were cancelled as a result of the Company's early repayment of certain amounts under its credit facility during the year ended November 1, 2009, and the associated liability was reduced accordingly.

The table below presents the effect of derivative instruments on the Company's condensed consolidated balance sheets at July 31, 2011 and October 31, 2010.

Derivatives Not Designated as Hedging Instruments Under ASC 815	Balance Sheet Location	Fair Value at July 31, 2011	Fair Value at October 31, 2010
Warrants on common stock	Other liabilities	$ 1,322	$ 1,881

The table below presents the effect of derivative instruments on the Company's condensed consolidated statements of income for the three and nine month periods ended July 31, 2011 and August 1, 2010.

Derivatives Not Designated as Hedging Instruments Under ASC 815	Location of Gain (Loss) Related to Derivative Instruments	Amount of Gain (Loss) Recognized Related to Derivative Instruments			
		Three Months Ended		Nine Months Ended	
		July 31, 2011	August 1, 2010	July 31, 2011	August 1, 2010
Warrants on common stock	Investment and other income (expense), net	$ 221	$ 388	$ $(599)	$ $(363)

NOTE 7 - SHARE-BASED COMPENSATION

In March 2007 shareholders approved a new share-based compensation plan ("Plan"), under which options, restricted stock, restricted stock units, stock appreciation rights, performance stock, performance units, and other awards based on, or related to, shares of the Company's common stock may be granted from shares authorized but unissued, or shares previously issued and reacquired by the Company. A maximum of six million shares of common stock may be issued under the Plan. Awards may be granted to officers, employees, directors, consultants, advisors, and independent contractors of the Company or its subsidiaries. In the event of a change in control (as defined in the Plan), the vesting of awards may be accelerated. The Plan, aspects of which are more fully described below, prohibits further awards from being issued under prior plans. The Company incurred total share-based compensation costs for the three and nine month periods ended July 31, 2011, of $0.7 million and $1.8 million, respectively, and $0.5 million and $1.5 million for the three and nine month periods ended August 1, 2010, respectively. The Company received cash from option exercises of $0.2 million and $0.4 million for the three and nine month periods ended July 31, 2011, respectively, and $0.1 million for the nine month period ended August 1, 2010. The Company did not receive any cash from option exercises during the three month period ended August 1, 2010. No share-based compensation cost was capitalized as part of inventory and no related income tax benefits were recorded during the periods presented.

Stock Options

Option awards generally vest over one to four year periods, and have a ten-year contractual term. All incentive and non-qualified stock option grants have an exercise price equal to the market value of the underlying common stock on the date of grant. The grant date fair values of options are based on the closing prices of the Company's common stock on the date of grant using the Black-Scholes option pricing model. Expected volatility is based on the historical volatility of the Company's stock. The Company uses historical option exercise behavior and employee termination data to estimate expected term, which represents the period of time that the options granted are expected to remain outstanding. The risk-free rate of return for the estimated term of the option is based on the U.S. Treasury yield curve in effect at the date of grant. The weighted-average inputs and risk-free rate of return ranges used to calculate the grant date fair value of options issued during the three and nine month periods ended July 31, 2011 and August 1, 2010, are presented in the following table.

	Three Months Ended		Nine Months Ended	
	July 31, 2011	August 1, 2010	July 31, 2011	August 1, 2010
Expected volatility	N/A	91.6%	98.7%	89.5%
Risk free rate of return	N/A	1.7%	1.0% - 1.9%	1.7% - 2.4%
Dividend yield	N/A	0.0%	0.0%	0.0%
Expected term	N/A	4.3 years	4.2 years	4.5 years

Information on outstanding and exercisable option awards as of July 31, 2011, is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at July 31, 2011	4,047,441	$ 9.32	6.4 years	$ 9,642
Exercisable at July 31, 2011	2,055,723	$ 14.51	4.4 years	$ 2,602

There were no share options granted during the three month period ended July 31, 2011, and there were 80,000 share options granted during the three month period ended August 1, 2010, with a weighted-average grant date fair value of $3.08 per share. There were 620,750 share options granted during the nine month period ended July 31, 2011, with a weighted-average grant date fair value of $4.75 per share and 926,400 share options granted during the nine month period ended August 1, 2010, with a weighted-average grant date fair value of $2.98 per share. As of July 31, 2011, the total unrecognized compensation cost related to non-vested option awards was approximately $3.6 million. That cost is expected to be recognized over a weighted-average amortization period of 2.9 years.

Restricted Stock

The Company periodically grants restricted stock awards. The restrictions on these awards lapse over a service period that has ranged from less-than-one to eight years. No restricted stock awards were granted during the three month period ended July 31, 2011, and 176,250 restricted stock awards were granted during the nine month period ended July 31, 2011, with a weighted-average grant date fair value of $6.71 per share. No restricted stock awards were granted during the nine month period ended August 1, 2010. As of July 31, 2011, the total compensation cost not yet recognized related to unvested restricted stock awards was approximately $1.5 million. That cost is expected to be recognized over a weighted-average amortization period of 2.6 years. As of July 31, 2011, there were 208,577 shares of restricted stock outstanding.

NOTE 8 - CONSOLIDATION, RESTRUCTURING AND RELATED CHARGES (CREDITS)

In the third quarter of fiscal 2009, the Company ceased the manufacture of photomasks at its Shanghai, China, facility and recorded an initial restructuring charge of $10.1 million, which included $7.7 million to write down the carrying value of the Company's Shanghai manufacturing facility to its estimated fair value at that time. In the second quarter of fiscal 2010, the Company sold its facility in Shanghai, China, for net proceeds of $12.9 million ($4.2 million of which was received as a deposit in the first quarter of fiscal 2010), which resulted in a gain of $5.4 million. The gain was recorded as a credit to the restructuring reserve in that quarter. On a cumulative basis the Company recorded total net charges of $5.2 million, including $4.7 million of net asset write-downs, through its completion in fiscal 2010. The fair value of the assets written down was determined by management using a market approach. The following tables set forth the Company's restructuring reserve related to its Shanghai, China, facility as of August 1, 2010, and reflects the activity affecting the reserve for the three and nine month periods then ended.

	Three Months Ended August 1, 2010				Nine Months Ended August 1, 2010			
	May 3, 2010	Charges	Utilized	August 1, 2010	November 2, 2009	Charges (credits)	Utilized	August 1, 2010
Net gain on sales of assets and other	$ 218	$ -	$ (21)	$ 197	$ -	$ (5,020)	$ 5,217	$ 197
Employee terminations	-	26	(26)	-	134	210	(344)	-
	$ 218	$ 26	$ (47)	$ 197	$ 134	$ (4,810)	$ 4,873	$ 197

NOTE 9 - INCOME TAXES

The effective tax rate differs from the U.S. statutory rate of 35% in the third quarter and through the first three quarters of fiscal year 2011 primarily due to the impact of the non-deductible debt extinguishment loss recorded in the second and third quarters of 2011, a higher level of earnings taxed at lowered statutory rates in foreign jurisdictions, offset by the impact of a foreign subsidiary tax settlement in the three month period ended July 31, 2011. In the third quarter and through the first three quarters of fiscal year 2010, the effective tax rate differed from the U.S. statutory rate primarily because income tax provisions incurred in jurisdictions where the Company generated income before income taxes were, due to valuation allowances, not significantly offset by income tax benefits in jurisdictions where the Company incurred losses before income taxes. Further, in Korea and in Taiwan, various investment tax credits have been earned, which reduced the Company’s effective income tax rate.

The Company accounts for uncertain tax positions by recording a liability for unrecognized tax benefits resulting from uncertain tax positions taken, or expected to be taken, in its tax returns. The Company recognizes any interest and penalties related to uncertain tax positions in the income tax provision in its condensed consolidated statements of operations.

As a result of the Company's foreign subsidiary's income tax settlement in the third quarter of 2011, other liabilities for unrecognized tax benefits associated with uncertain tax positions in the condensed balance sheets were reduced by $1.0 million including interest and penalties.

Unrecognized tax benefits associated with uncertain tax positions of $1.0 million, including interest and penalties, were included in other liabilities in the condensed consolidated balance sheets at July 31, 2011 and $2.0 million, including $0.3 million for interest and penalties, at October 31, 2010. If recognized, the benefits would favorably affect the Company's effective income tax rate in future periods. Although the Company does not expect to report a significant change in the amount of liabilities recorded for uncertain tax positions in the next twelve months, changes in the recorded reserves could impact future reported results. Currently, the statutes of limitations remain open subsequent to, and including, 2006 in the U.S., 2009 in the U.K., 2008 in Germany, 2011 in Korea and 2010 in Taiwan.

NOTE 10 - EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is presented below.

	Three Months Ended		Nine Months Ended	
	July 31, 2011	August 1, 2010	July 31, 2011	August 1, 2010
Net income attributable to Photronics, Inc.	$ 11,265	$ 7,691	$ 6,938	$ 15,778
Effect of dilutive securities:				
Interest expense on convertible notes, net of related tax effects	1,595	1,022	-	3,063
Gain related to common stock warrants fair value adjustment	(221)	(388)	-	-
Earnings for diluted earnings per share	$ 12,639	$ 8,325	$ 6,938	$ 18,841
Weighted-average common shares computations:				
Weighted-average common shares used for basic earnings per share	58,987	53,516	56,163	53,341
Effect of dilutive securities:				
Convertible notes	15,909	11,311	-	11,311
Share-based payment awards	1,314	969	1,252	983
Common stock warrants	534	484	309	54
Potentially dilutive common shares	17,757	12,764	1,561	12,348
Weighted-average common shares used for diluted earnings per share	76,744	66,280	57,724	65,689
Basic earnings per share	$ 0.19	$ 0.14	$ 0.12	$ 0.30
Diluted earnings per share	$ 0.16	$ 0.13	$ 0.12	$ 0.29

The table below shows the outstanding weighted-average share-based payment awards and common stock warrants that were excluded from the calculation of diluted earnings per share because their exercise price exceeded the average market value of the common shares for the period or, under application of the treasury stock method, they were otherwise determined to be anti-dilutive. The table also shows convertible notes that, if converted, would have been anti-dilutive.

	Three Months Ended		Nine Months Ended	
	July 31, 2011	August 1, 2010	July 31, 2011	August 1, 2010
Share-based payment awards	2,206	2,700	2,412	2,668
Convertible notes	-	-	13,519	-
Common stock warrants	-	250	225	792
Total potentially dilutive shares excluded	2,206	2,950	16,156	3,460

NOTE 11 – GEOGRAPHIC INFORMATION

The Company operates as a single operating segment as a manufacturer of photomasks, which are high precision quartz plates containing microscopic images of electronic circuits for use in the fabrication of ICs and FPDs. Geographic net sales are based primarily on where the Company's manufacturing facility is located. The Company's net sales by geographic area and for ICs and FPDs for the three and nine month periods ended July 31, 2011 and August 1, 2010 and its long-lived assets by geographic area as of July 31, 2011, and October 31, 2010, are presented below.

	Three Months Ended		Nine Months Ended	
	July 31, 2011	August 1, 2010	July 31, 2011	August 1, 2010
Net sales				
Asia	$ 80,051	$ 70,349	$ 238,224	$ 192,977
Europe	11,833	11,116	35,643	31,298
North America	44,051	30,786	115,994	91,243
	$ 135,935	$ 112,251	$ 389,861	$ 315,518
IC	$ 104,891	$ 86,001	$ 294,691	$ 244,489
FPD	31,044	26,250	95,170	71,029
	$ 135,935	$ 112,251	$ 389,861	$ 315,518

	As of	
	July 31, 2011	October 31, 2010
Long-lived assets		
Asia	$ 216,502	$ 221,283
Europe	11,338	14,182
North America	169,863	134,349
	$ 397,703	$ 369,814

NOTE 12 - FAIR VALUE MEASUREMENTS

The accounting framework for determining fair value includes a hierarchy for ranking the quality and reliability of the information used to measure fair value, which enables the reader of the financial statements to assess the inputs used to develop those measurements. The fair value hierarchy consists of three tiers as follows: Level 1, defined as quoted market prices in active markets for identical securities; Level 2, defined as inputs other than Level 1 that are observable, either directly or indirectly; and Level 3, defined as unobservable inputs that are not corroborated by market data.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The tables below present assets and liabilities as of July 31, 2011 and October 31, 2010 that are measured at fair value on a recurring basis.

	July 31, 2011			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Common stock warrants	$ -	$ 1,322	$ -	$ 1,322
Total liabilities	$ -	$ 1,322	$ -	$ 1,322

	October 31, 2010			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Common stock warrants	$ -	$ 1,881	$ -	$ 1,881
Total liabilities	$ -	$ 1,881	$ -	$ 1,881

The fair value of the common stock warrants liability was determined using the Black-Scholes option pricing model. A significant observable input into the model included the market price of the Company's common stock at the measurement date. Gains or losses related to fair value adjustments to the common stock warrants liability are included in other income (expense), net.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Company did not have any nonfinancial assets or liabilities measured at fair value on a nonrecurring basis as of July 31, 2011 and October 31, 2010.

Fair Value of Other Financial Instruments

The fair values of the Company's cash and cash equivalents, accounts receivable, accounts payable, and certain other current assets and current liabilities approximate their carrying value due to their short-term maturities. The fair value of the Company's variable rate long-term debt approximates its carrying value due to the variable nature of the underlying interest rate. The estimated fair values of the Company's 3.25% and 5.5% convertible senior notes were $119.5 million and $37.1 million, respectively, as of July 31, 2011, and the estimated fair value of the Company's 5.5% senior convertible notes was $83.2 million, as of October 31, 2010. The Company acquired $35.4 million face amount of its 5.5% senior convertible notes during the nine month period ended July 31, 2011.

NOTE 13 – SUBSIDIARY SHARE REPURCHASE

During the three month period ended May 1, 2011, the board of directors of Photronics Semiconductor Mask Corporation (PSMC), a subsidiary of the Company based in Taiwan, authorized PSMC to repurchase for retirement up to 5% of its outstanding common stock on the open market. The repurchase program, which expired in April 2011, resulted in approximately 7.7 million shares (or approximately 2.7 % of its outstanding shares) being repurchased at a total cost of $3.3 million. PSMC's repurchase of these shares increased the Company's ownership of PSMC from 57.53% at October 31, 2010, to 59.14% at May 1, 2011. The table below presents the effect of the change in Photronics, Inc.'s ownership interest in PSMC on the Company's equity for the nine month periods ended July 31, 2011 and August 1, 2010.

	Nine Months Ended	
	July 31, 2011	August 1, 2010
Net income attributable to Photronics, Inc.	$ 6,938	$ 15,778
Decrease in Photronics, Inc.'s additional paid-in capital for PSMC's repurchase of 7.7 million shares of its common stock	(328)	-
Change from net income attributable to Photronics, Inc. and transfer to noncontrolling interest	$ 6,610	$ 15,778

In August 2011, the board of directors of PSMC authorized PSMC to repurchase for retirement up to 5% of its outstanding common stock on the open market through October 14, 2011, should such stock become available for repurchase within a certain price per share range.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

As of July 31, 2011, the Company had commitments outstanding for capital expenditures of approximately $16 million.

The Company is subject to various claims that arise in the ordinary course of business. The Company believes such claims, individually or in the aggregate, will not have a material adverse effect on its business, financial condition, results of operations or cash flows.

NOTE 15 – RECENT ACCOUNTING GUIDANCE

In June 2011 the FASB issued Accounting Standards Update (ASU) No. 2011-05, “Presentation of Comprehensive Income”, with the purpose of increasing the prominence of items reported in other comprehensive income. The amended guidance requires that all non-owner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate statements. The amendments also require that reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) be presented on the face of the financial statements. ASU No. 2011-05 is to be applied retrospectively and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of ASU No. 2011-05 will have no effect on the Company’s reported financial condition, financial performance or cash flows.

In May 2011 the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs", which amended its guidance on fair value measurements with the purpose of achieving commonality of its fair value measurement and disclosure requirements with those of International Financial Reporting Standards (IFRSs). ASU No. 2011-04 clarifies the FASBs intentions regarding the application of existing fair value measurement and disclosure requirements, changes certain principles for measuring fair value and changes the disclosure requirements for fair value measurements. ASU No. 2011-04 is to be applied prospectively and is effective during interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the effect, if any, ASU No. 2011-04 will have on its consolidated financial statements.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Management's discussion and analysis ("MD&A") of the Company's financial condition, results of operations and outlook should be read in conjunction with its condensed consolidated financial statements and related notes. Various segments of this MD&A contain forward-looking statements, all of which are presented based on current expectations and may be adversely affected by uncertainties and risk factors (presented throughout this filing and in the Company's Annual Report on Form 10-K for the fiscal 2010 year), that may cause actual results to materially differ from these expectations.

The Company sells substantially all of its photomasks to semiconductor designers and manufacturers, and manufacturers of FPDs. Photomask technology is also being applied to the fabrication of other higher performance electronic products such as photonics, micro-electronic mechanical systems and certain nanotechnology applications. Thus, the Company's selling cycle is tightly interwoven with the development and release of new semiconductor designs and flat panel applications, particularly as it relates to the semiconductor industry's migration to more advanced design methodologies and fabrication processes. The Company believes that the demand for photomasks primarily depends on design activity rather than sales volumes from products produced using photomask technologies. Consequently, an increase in semiconductor or FPD sales does not necessarily result in a corresponding increase in photomask sales. However, the reduced use of customized ICs, reductions in design complexity, other changes in the technology or methods of manufacturing or designing semiconductors, or a slowdown in the introduction of new semiconductor or FPD designs could reduce demand for photomasks even if demand for semiconductors and FPDs increases. Advances in semiconductor and photomask design and semiconductor production methods could reduce the demand for photomasks. Historically, the semiconductor industry has been volatile, with sharp periodic downturns and slowdowns. These downturns have been characterized by, among other things, diminished product demand, excess production capacity and accelerated erosion of selling prices.

The global semiconductor industry is driven by end markets which have been closely tied to consumer driven applications of high performance semiconductor devices including, but not limited to, communications and mobile computing solutions. The Company is typically required to fulfill its customer orders within a short period of time, sometimes within 24 hours. This results in the Company having a minimal level of back-log orders, typically one to two weeks for IC photomasks and two to three weeks for FPD photomasks. The Company cannot predict the timing of the industry's transition to volume production of next generation technology nodes or the timing of up and down cycles with precise accuracy, but believes that such transitions and cycles will continue into the future, beneficially and adversely affecting its business, financial condition and operating results in the near term. The Company's ability to remain successful in these environments is dependent upon achieving its goals of being a service and technology leader, an efficient solutions supplier, and a company able to continually reinvest in its global infrastructure.

Although the Company issued $115 million in convertible senior notes on March 28, 2011, the effects of the weakened global economy and the tightened credit market may make it increasingly difficult for the Company to obtain additional external sources of financing, if necessary, to fund its operations.

The Company's ability to comply with the financial and other covenants in its debt agreements may be affected by economic or business conditions, or other events. Existing covenant restrictions limit the Company's ability to obtain additional debt financing and, should the Company be unable to meet one or more of these covenants, its lenders may require the Company to repay its outstanding balances prior to the expiration date of the agreements. The Company cannot assure that additional sources of financing would be available to the Company to pay off its long-term borrowings to avoid default. Should the Company default on any of its long-term borrowings, a cross default would occur on certain of its other long-term borrowings, unless amended or waived. As of July 31, 2011, the Company was in compliance with its debt covenants.

Material Changes in Results of Operations Three and Nine Months ended July 31, 2011 and August 1, 2010

The following table represents selected operating information expressed as a percentage of net sales.

	Three Months Ended		Nine Months Ended	
	July 31, 2011	August 1, 2010	July 31, 2011	August 1, 2010
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	(71.9)	(76.6)	(73.0)	(78.9)
Gross margin	28.1	23.4	27.0	21.1
Selling, general and administrative expenses	(8.7)	(9.9)	(8.7)	(10.1)
Research and development expenses	(2.6)	(3.0)	(2.9)	(3.5)
Consolidation, restructuring and related credits	-	-	-	1.5
Operating income	16.8	10.5	15.4	9.0
Debt extinguishment loss	(3.6)	-	(9.0)	-
Other expense, net	(0.3)	(1.1)	(0.5)	(1.9)
Net income before income taxes	12.9	9.4	5.9	7.1
Income tax provision	(3.6)	(2.6)	(3.0)	(1.8)
Net income	9.3	6.8	2.9	5.3
Net (income) loss attributable to noncontrolling interests	(1.0)	0.1	(1.1)	(0.3)
Net income attributable to Photronics, Inc.	8.3%	6.9%	1.8%	5.0%

All of the following tabular comparisons, unless otherwise indicated, are for the three months ended July 31, 2011 (Q3-11) and August 1, 2010 (Q3-10) and for the nine months ended July 31, 2011 (YTD-11) and August 1, 2010 (YTD-10) in millions of dollars.

Net Sales

	Three Months Ended			Nine Months Ended		
	Q3-11	Q3-10	Percent Change	YTD-11	YTD-10	Percent Change
IC	$ 104.9	$ 86.0	22.0%	$ 294.7	$ 244.5	20.5%
FPD	31.0	26.3	18.3%	95.2	71.0	34.1%
Total net sales	$ 135.9	$ 112.3	21.1%	$ 389.9	$ 315.5	23.6%

Net sales for Q3-11 increased 21.1% to $135.9 million as compared to $112.3 million for Q3-10, with increases in both IC and FPD photomask sales. IC photomask sales increased primarily as a result of increased demand for high-end units, which typically have higher average selling prices (ASPs). FPD sales increased as a result of increased ASPs for both high-end and mainstream photomasks, and due to increased mainstream unit demand. Revenues attributable to high-end products increased by $19.2 million to $52.8 million in Q3-11 as compared to $33.6 million in Q3-10. High-end photomask applications include mask sets for 65 nanometer and below for IC products and G7 and above technologies for FPD products. By geographic area, net sales in Q3-11 as compared to Q3-10 increased by $9.7 million or 13.8% in Asia, increased by $13.3 million or 43.1% in North America, and increased by $0.7 million or 6.5% in Europe. As a percent of total sales, in Q3-11 net sales were 59% in Asia, 32% in North America, and 9% in Europe; and net sales in Q3-10 in Asia were 63%, North America 27%, and Europe 10%.

Net sales for YTD-11 increased 23.6% to $389.9 million as compared to $315.5 million for YTD-10 with increased sales of both IC and FPD photomasks. IC photomask sales increased $50.2 million as a result of increased units and ASPs, primarily for high-end products. FPD photomask sales increased $24.2 million, as a result of increased units and ASPs for both high-end and mainstream products. The Company's quarterly revenues can be affected by the seasonal purchasing of its customers. Although demand for the Company's products is typically negatively impacted during the first six months of its fiscal year by the North American, European and Asian holiday periods, such seasonality was not experienced during YTD-11.

Gross Margin

	Three Months Ended			Nine Months Ended		
	Q3-11	Q3-10	Percent Change	YTD-11	YTD-10	Percent Change
Gross margin	$ 38.2	$ 26.3	45.6%	$ 105.3	$ 66.5	58.3%
Percentage of net sales	28.1%	23.4%		27.0%	21.1%	

Gross margin percentage increased to 28.1% in Q3-11 from 23.4% in Q3-10 and increased to 27.0% in YTD-11 from 21.1% in YTD-10. These increases were a result of increased sales in all geographic regions, including increased high-end sales. The Company operates in a high fixed cost environment and, to the extent that the Company's revenues and utilization increase or decrease, gross margin will generally be positively or negatively impacted.

Selling, General and Administrative Expenses

	Three Months Ended			Nine Months Ended		
	Q3-11	Q3-10	Percent Change	YTD-11	YTD-10	Percent Change
Selling, general and administrative expenses	$ 11.8	$ 11.1	6.9%	$ 34.0	$ 32.1	5.9%
Percentage of net sales	8.7%	9.9%		8.7%	10.1%	

Selling, general and administrative expenses increased to $11.8 million in Q3-11, compared with $11.1 million in Q3-10, and to $34.0 million in YTD-11 as compared to $32.1 million in YTD-10. These increases were primarily due to increased employee compensation and related benefit expenses, and increased selling expenses.

Research and Development

	Three Months Ended			Nine Months Ended		
	Q3-11	Q3-10	Percent Change	YTD-11	YTD-10	Percent Change
Research and development	$ 3.5	$ 3.4	2.9%	$ 11.2	$ 11.0	2.3%
Percentage of net sales	2.6%	3.0%		2.9%	3.5%	

Research and development expenses consist primarily of global development efforts related to high-end process technologies for advanced sub-wavelength reticle solutions for IC and FPD technologies. Research and development expenses increased by $0.1 million to $3.5 million in Q3-11, as compared to $3.4 million in Q3-10. On a YTD basis, research and development expenses increased $0.2 million to $11.2 million in YTD-11, as compared to $11.0 million in YTD-10. The increase in research and development expenses in Q3-11 and YTD-11 as compared to the same periods in the prior year were primarily due to increased expenditures in Asia.

Consolidation, Restructuring and Related Credits

	Three Months Ended		Nine Months Ended	
	Q3-11	Q3-10	YTD-11	YTD-10
Net gain on sales of assets	$ -	$ -	$ -	$ (5.0)
Employee terminations and other	-	-	-	0.2
Total consolidation, restructuring and related credits	$ -	$ -	$ -	$ (4.8)

In the third quarter of fiscal 2009, the Company ceased the manufacture of photomasks at its Shanghai, China, facility. In connection with this restructuring, the Company recorded total net charges of $5.2 million, including $4.7 million of net asset write-downs through its completion in fiscal 2010. The fair value of the assets written down was determined by management using a market approach. Approximately 75 employees were affected by this restructuring.

The Company recorded an initial restructuring charge of $10.1 million in the third quarter of fiscal 2009, which included $7.7 million to write down the carrying value of the Company's Shanghai manufacturing facility to its estimated fair value at that time. In the second quarter of fiscal 2010, the Company sold its facility in Shanghai, China, for net proceeds of $12.9 million, which resulted in a gain of $5.4 million. The gain was recorded as a credit to the restructuring reserve in that quarter.

Other Expense, net

	Three Months Ended		Nine Months Ended	
	Q3-11	Q3-10	YTD-11	YTD-10
Debt extinguishment loss	$ (5.0)	$ -	$ (35.3)	$ -
Interest expense	(1.9)	(1.8)	(5.5)	(7.8)
Investment and other income (expense), net	1.5	0.6	3.5	1.9
Other expense, net	$ (5.4)	$ (1.2)	$ (37.3)	$ (5.9)

In the third quarter of fiscal 2011 the Company acquired $5.0 million aggregate principal amount of its 5.5% convertible senior notes by delivering $3.2 million in cash and approximately 0.7 million shares of its common stock, with an approximate fair value of $6.5 million. In connection with this acquisition the Company recorded a debt extinguishment loss of $5.0 million, which included the write-off of $0.3 million of deferred financing fees. A portion of the net proceeds of the Company's March 28, 2011, 3.25% convertible senior notes offering was used to repurchase these notes.

In the second quarter of fiscal 2011 the Company acquired $30.4 million aggregate principal amount of its 5.5% convertible senior notes by delivering $19.7 million in cash and approximately 4.5 million shares of its common stock, with an approximate fair value of $39.2 million. In connection with this acquisition the Company recorded a debt extinguishment loss of $30.1 million, which included the write-off of $1.7 million of deferred financing fees. A portion of the net proceeds of the Company's March 28, 2011, 3.25% convertible senior notes offering was used to repurchase these notes.

Interest expense increased slightly in Q3-11 as compared to Q3-10 as a result of higher average outstanding debt balances, which were partially offset by decreased interest rates. Interest expense decreased in YTD-11 as compared to YTD-10, primarily as a result of lower average interest rates on the Company's outstanding borrowings and as a result of a $1.0 million write-off of deferred financing fees in Q2-10 in connection with an amendment to the Company's credit facility.

Investment and other income (expense) increased in Q3-11 as compared to Q3-10 by $0.9 million, primarily due to favorable foreign currency transaction results. On a comparative YTD basis, investment and other income (expense), net increased by $1.6 million due to higher interest and investment income, and increased foreign currency transaction gains.

Income Tax Provision

	Three Months Ended		Nine Months Ended	
	Q3-11	Q3-10	YTD-11	YTD-10
Income tax provision	$ 4.9	$ 2.9	$ 11.6	$ 5.8
Consolidated effective tax rate	27.9%	27.7%	51.0%	25.8%

The effective tax rate differs from the U.S. statutory rate of 35% in the third quarter and through the first three quarters of fiscal year 2011 primarily due to the impact of the non-deductible debt extinguishment loss recorded in the second and third quarters of 2011, a higher level of earnings taxed at lowered statutory rates in foreign jurisdictions, offset by the impact of a foreign subsidiary tax settlement in the three month period ended July 31, 2011. In the third quarter and through the first three quarters of fiscal year 2010, the effective tax rate differed from the U.S. statutory rate primarily because income tax provisions incurred in jurisdictions where the Company generated income before income taxes were, due to valuation allowances, not significantly offset by income tax benefits in jurisdictions where the Company incurred losses before income taxes. Further, in Korea and in Taiwan, various investment tax credits have been earned, which reduced the Company's effective income tax rate.

PKLT, the Company's FPD manufacturing facility in Taiwan, is accorded a tax holiday which commences in 2012 and expires in 2017. The availability of this tax holiday did not have a significant impact on the Company's decision to increase its Asian presence, as the Company's decision was in response to fundamental changes that took place in the semiconductor industry. This tax holiday had no dollar or per share effect in the periods presented.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests increased to $1.4 million in Q3-11 as compared to a net loss attributable to noncontrolling interests of $0.1 million in Q3-10, primarily due to increased net income at the Company's non-wholly owned subsidiary in Taiwan. On a YTD basis, net income attributable to noncontrolling interests increased to $4.2 million in 2011 as compared to $0.8 million in 2010, primarily as a result of increased net income at the Company's non-wholly owned subsidiary in Taiwan.

During the three month period ended May 1, 2011, the board of directors of PSMC authorized PSMC to repurchase for retirement up to 5% of its outstanding common stock. The repurchase program, which expired in April, 2011, resulted in approximately 7.7 million shares (or 2.7% of its outstanding shares) being purchased at a total cost of $3.3 million. PSMC's repurchase of these shares increased the Company's ownership percentage in PSMC from 57.53% at October 31, 2010, to its ownership percentage as of July 31, 2011, of 59.14%. The Company's ownership percentage in its subsidiary in Korea was approximately 99.7% at July 31, 2011 and October 31, 2010.

In August 2011, the board of directors of PSMC authorized PSMC to repurchase for retirement, up to 5% of its outstanding common stock on the open market through October 14, 2011 should such stock become available for repurchase within a certain price per share range.

Liquidity and Capital Resources

The Company's working capital was $203.4 million at July 31, 2011, and $86.6 million at October 31, 2010. The increase in working capital was primarily the result of cash generated from operating activities and the net proceeds of the Company's issuance of 3.25% convertible debt, offset in part by repayments of certain other higher interest rate long-term borrowings. Cash and cash equivalents increased to $202.8 million at July 31, 2011, as compared to $98.9 million at October 31, 2010, primarily due to increased cash generated from operations and the issuance of 3.25% convertible debt, which was partially offset by payments for capital expenditures and repayments of certain other long-term borrowings. Inventories increased to $30.9 million at July 31, 2011 from $15.5 million at October 31, 2010, primarily because the Company increased inventory levels as a result of possible delays in receiving materials from vendors in Japan as a result of the earthquake and tsunami in Japan in the three month period ended May 1, 2011. Net cash provided by operating activities was $104.5 million for the nine month period ended July 31, 2011, as compared to $74.2 million for the nine month period ended August 1, 2010, the increase primarily being due to the Company's increased net income before recognition of the non-cash portion of the debt extinguishment losses of $27.4 million and increases in accounts payable and accrued liabilities, primarily related to increased payables for capital expenditures. Net cash used in investing activities for the nine month period ended July 31, 2011, was $70.1 million, which was primarily comprised of capital expenditure payments and an increased investment in the MP Mask joint venture. Net cash provided by financing activities of $61.6 million for the nine month period ended July 31, 2011, was primarily comprised of proceeds from the March 2011 issuance of 3.25% convertible notes, partially offset by repayment of certain other long-term borrowings.

On March 28, 2011, the Company issued $115 million aggregate principal amount of 3.25% convertible senior notes. The Company realized net proceeds of $110.5 million from the issuance of the notes, which mature on April 1, 2016, and pay interest semiannually commencing on October 1, 2011. During the three month period ended May 1, 2011, the Company used $19.7 million of the net proceeds of the 3.25% senior convertible notes and issued common stock to repurchase approximately $30.4 million principal amount of its 5.5% convertible senior notes, and used an additional $19.8 million of the net proceeds to repay its outstanding obligations under capital leases. In June 2011 the Company acquired an additional $5.0 million principal amount of its outstanding 5.5% senior convertible notes for $3.2 million and common stock. The Company may use a portion of the remaining net proceeds of its 3.25% convertible senior notes for capital expenditure and working capital purposes.

On March 18, 2011, the Company and its lenders amended its revolving credit facility. Under the terms of the amended credit facility, the total amount available to the Company to borrow was reduced from $65 million to $30 million. The credit facility bears interest (2.69% at July 31, 2011), based on the Company's total leverage ratio, at LIBOR plus a spread, as defined in the agreement. The credit facility is secured by substantially all of the Company's assets located in the United States, as well as common stock the Company owns in certain of its foreign subsidiaries, and is subject to the following financial covenants, as defined in the agreement: minimum fixed charge ratio, total leverage ratio and minimum unrestricted cash balance. In January 2011 a $10 million irrevocable stand-by letter of credit, which expired in July 2011, for the purchase of manufacturing equipment was issued under the credit facility. As of July 31, 2011, the Company had no outstanding borrowings under the credit facility and $30 million was available for borrowing.

In April 2011, the Company entered into a 5 year, $21.2 million capital lease of manufacturing equipment. Payments under the lease, which bears interest at 3.09%, are $0.4 million per month through March 2016. As of July 31, 2011, the total lease amount payable through the end of the lease term was $21.4 million, of which $19.9 million represented principal and $1.5 million represented interest.

The Company's liquidity is highly dependent on its sales volume, cash conversion cycle, and the timing of its capital expenditures (which can vary significantly from period-to-period), as it operates in a high fixed cost environment. Depending on conditions in the IC semiconductor and FPD markets, the Company's cash flows from operations and current holdings of cash may not be adequate to meet its current and long-term needs for capital expenditures, operations and debt repayments. Historically, in certain years the Company has used external financing to partially fund these needs. However, the Company cannot assure that additional sources of financing would be available to it on commercially favorable terms should its cash requirements exceed cash available from operations, existing cash, and cash available under its credit facility. The Company may, from time to time, opportunistically repurchase its convertible senior notes, in open market or privately negotiated transactions, on terms it believes to be favorable.

Off-Balance Sheet Arrangements

Under the operating agreement related to the MP Mask joint venture, in order to maintain its 49.99% interest, the Company may be required to make additional capital contributions to the joint venture up to the maximum amount defined in the operating agreement. However, should the Board of Managers determine that further additional funding is required, the joint venture shall pursue its own financing. If the joint venture is unable to obtain its own financing, it may request additional capital contributions from the Company. Should the Company choose not to make a requested contribution to the joint venture, its ownership percentage may be reduced. Cumulatively, through July 31, 2011, the Company has contributed $16.8 million to the joint venture, and has received distributions from the joint venture totaling $10.0 million. During the three and nine month periods ended July 31, 2011, the Company increased its investment in MP Mask by $0.5 million and $10.7 million respectively, primarily related to capital calls requested by the joint venture. The Company received no distributions from the joint venture during the nine month period ended July 31, 2011. During the nine month period ended August 1, 2010, there were no contributions made to the joint venture by the Company, and no distributions were received by the Company from the joint venture.

The Company leases certain office facilities and equipment under operating leases that may require it to pay taxes, insurance and maintenance expenses related to the properties. Certain of these leases contain renewal or purchase options exercisable at the end of the lease terms. On May 19, 2009, the Company and Micron Technologies, Inc. (Micron) entered into a new lease agreement for the U.S. nanoFab building and cancelled its prior lease agreement. The new lease, among other changes discussed in Note 4 to the condensed consolidated financial statements, extends the lease term from December 31, 2012 to December 31, 2014. The Company will account for it as an operating lease for the period of the lease extension. Rental payments due during the lease extension period total $13.9 million.

Business Outlook

A majority of the Company's revenue growth is expected to come from the Asian region, as customers increase their use of manufacturing foundries located outside of North America and Europe. Additional revenue growth is also anticipated in North America as the Company benefits from advanced technology under its technology license with Micron. The Company's Korean and Taiwanese operations are non-wholly owned subsidiaries, therefore, a portion of earnings generated at each of these locations is allocated to noncontrolling interests.

The Company continues to assess its global manufacturing strategy and monitor its market capitalization, sales volume and related cash flows from operations. This ongoing assessment could result in future facility closures, asset redeployments, additional impairments of intangible or long-lived assets, workforce reductions, or the addition of increased manufacturing facilities, all of which would be based on market conditions and customer requirements.

Effect of Recent Accounting Pronouncements

See Note 15 of the condensed consolidated financial statements for a summary of recent accounting pronouncements that may affect the Company’s financial reporting.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISC LOS URES ABOUT MARKET RISK

The Company records derivatives on the condensed consolidated balance sheets as assets or liabilities, measured at fair value. The Company does not engage in derivative instruments for speculative purposes. Gains or losses resulting from changes in the values of those derivatives are reported in the condensed consolidated statements of operations, or as accumulated other comprehensive income, a separate component of equity, depending on the use of the derivatives and whether they qualify for hedge accounting. In order to qualify for hedge accounting, among other criteria, the derivative must be a hedge of an interest rate, price, foreign currency exchange rate, or credit risk, that is expected to be highly effective at the inception of the hedge and be highly effective in achieving offsetting changes in the fair value or cash flows of the hedged item during the term of the hedge, and formally documented at the inception of the hedge. In general, the types of risks hedged are those related to the variability of future cash flows caused by movements in foreign currency exchange and interest rates. The Company documents its risk management strategy and hedge effectiveness at the inception of, and during the term of each hedge.

Foreign Currency Exchange Rate Risk

The Company conducts business in several major international currencies through its worldwide operations and is subject to changes in foreign exchange rates of such currencies. Changes in exchange rates can positively or negatively affect the Company's sales, operating margins, assets, liabilities, and equity. The functional currencies of the Company's Asian subsidiaries are the Korean won, New Taiwan dollar, and the Singapore dollar. The functional currencies of the Company's European subsidiaries are the pound sterling and the euro.

The Company attempts to minimize its risk of foreign currency transaction losses by producing its products in the same country in which the products are sold (thereby generating revenues and incurring expenses in the same currency), and by managing its working capital. In some instances, the Company may sell or purchase products in a currency other than the functional currency of the country where it was produced. There can be no assurance that this approach will continue to be successful, especially in the event of a significant adverse movement in the value of any foreign currencies against the U.S. dollar. In certain recent years the Company experienced significant foreign exchange losses on these transactions.

The Company's primary net foreign currency exposures as of July 31, 2011, included the Korean won, the Japanese yen, the Singapore dollar, the New Taiwan dollar, the British pound, and the euro. As of July 31, 2011, a 10% adverse movement in the value of these currencies against the U.S. dollar would have resulted in a net unrealized pre-tax loss of $3.1 million. The Company does not believe that a 10% change in the exchange rates of other non-U.S. dollar currencies would have a material effect on its consolidated financial position, results of operations, or cash flows.

Interest Rate Risk

At July 31, 2011, the Company did not have any outstanding variable rate borrowings. Accordingly, a change in interest rates would not have had a material effect on the Company's consolidated financial position, results of operations, or cash flows in the three or nine month periods ended July 31, 2011.

Item 4. CO NT ROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company has established and currently maintains disclosure controls and procedures designed to ensure that information required to be disclosed in its reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the Company's chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

The Company’s management, under the supervision and with the participation of the Company’s chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of the end of the period covered by this report. Based upon that evaluation the Company’s chief executive officer and chief financial officer concluded that the Company’s disclosure controls and procedures were effective at a reasonable assurance level as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting during the Company's third quarter of fiscal 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. RISK FACTORS

There have been no material changes to risks relating to the Company's business as disclosed in Part 1, Item 1A of the Company's Form 10-K for the year ended October 31, 2010.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On June 14, 2011, the Company acquired $5.0 million aggregate principal amount of its 5.5% convertible senior notes due in October 2014 from its bondholders. The convertible notes were acquired for approximately $3.2 million in cash and approximately 0.7 million in shares of the Company’s common stock with an approximate value of $6.5 million. The shares were exempt from registration pursuant to Section 3.A(g) of the Securities Act of 1933.

Item 6. EX HIB ITS

(a) Exhibits

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Photronics, Inc.
(Registrant)

By: /s/ SEAN T. SMITH

Sean T. Smith
Senior Vice President
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)

Date: September 7, 2011

EXHIBIT 31.1

I, Constantine S. Macricostas, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Photronics, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CONSTANTINE S. MACRICOSTAS

Constantine S. Macricostas
Chief Executive Officer
September 7, 2011

EXHIBIT 31.2

I, Sean T. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Photronics, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ SEAN T. SMITH

Sean T. Smith
Chief Financial Officer
September 7, 2011

EXHIBIT 32.1

Section 1350 Certification of the Chief Executive Officer

I, Constantine S. Macricostas, Chief Executive Officer of Photronics, Inc. (the "Company"), certify, to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended July 31, 2011 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification is being furnished pursuant to 18 U.S.C. § 1350 and will not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference."

/s/ CONSTANTINE S. MACRICOSTAS
Constantine S. Macricostas
Chief Executive Officer
September 7, 2011

EXHIBIT 32.2

Section 1350 Certification of the Chief Financial Officer

I, Sean T. Smith, Chief Financial Officer of Photronics, Inc. (the "Company"), certify, to my knowledge, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

(1) the Quarterly Report on Form 10-Q of the Company for the quarter ended July 31, 2011 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

The foregoing certification is being furnished pursuant to 18 U.S.C. § 1350 and will not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section. Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference."

/s/ SEAN T. SMITH
Sean T. Smith
Chief Financial Officer
September 7, 2011